STATE OF MAINE
GOVERNOR'S OFFICE OF HEALTH POLICY AND FINANCE
15 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0078

JOHN ELIAS BALDACCI
GOVERNOR

TRISH RILEY
DIRECTOR

ELLEN SCHNEITER
DEPUTY DIRECTOR

NOTICE

To: Interested Parties
From: Ellen Jane Schneiter, Deputy Director
RE: Proposed Value of Capital Investment Fund (CIF)
Date: October 28, 2005

Pursuant to Chapter 101 of its rules, the Governor's Office of Health Policy and Finance (GOHPF) is issuing this Notice. Its purpose is to notify the public of the proposed value of the Capital Investment Fund (CIF) and to solicit public comment regarding that amount.

The CIF is a limit on the total third year operating costs that may be approved under the Certificate of Need program each year. Statutory provisions establishing the CIF were included in the Dirigo Health Reform Act, enacted in 2003.

The policy rationale for the CIF is that: (a) capital investments add costs to our health care system, (b) for a variety of reasons going far beyond capital investment, the level of cost growth in our system has become unsustainable; and (c) placing a limit on investment -- and prioritizing projects within that limit -- can play a meaningful role in reducing cost growth by ensuring that: (i) we do not add unnecessary costs to the system, and (ii) investments are targeted to ensure the greatest benefit in terms of meeting the population's health care needs.

The discussion below outlines the steps from the rule followed by GOHPF to arrive at the CIF amount.

Sections (3)(A-C) of chapter 101 require the Office to calculate a starting value for the CIF as follows:

- Subsection (A)(1). The first step in the calculation of the CIF is to determine average total third year costs for hospital projects approved under CON in each of the last 5 years, spreading the cost of projects with costs greater than $2 million over multiple years, counting no more than $2 million per year, and inflating each year's total to 2005 dollars.

  The result of this computation is $9,022,247.

- Subsection (A)(2). The next steps in the process of calculating the CIF involve allocating the average third year costs, determined above, into inpatient and outpatient portions of the CIF, and adjusting each for differences between Maine and New England costs.

  (a) The table below shows percentages of hospital gross patient revenue attributable to inpatient care 2000-2003, according to audited financial statements and Medicare Cost Reports filed with the Maine Health Data Organization. 2004 and 2005 proportions are derived by carrying the 2000-2003 trend forward.

2000	2001	2002	2003	2004	2005
59%	58%	56%	53%	51%	49%

  For 2005, the inpatient portion of the CIF prior to cost adjustment is $9,022,247 x 49% = $4,435,548.

  (b) Next, we are to adjust for differences between the average cost per discharge, adjusted for variations in wages and case mix, in Maine ($7588) and that of New England ($4807). The New England average is 63% of the Maine average ($4807/$7588 = 63%). The adjustment called for in this step, therefore, is made by multiplying the Maine value by 0.63. The adjusted inpatient portion of the CIF is equal to:

  $4,435,548 x 0.63 = $2,809,921

  (c) The next step in the process is to find the outpatient portion of the average third year capital and operating costs. The table below shows percentages of gross patient revenue attributable to outpatient care in 2000-2003, according to audited financial statements and Medicare Cost Reports. The updated proportions are derived by carrying the 2000-2003 trend forward.

2000	2001	2002	2003	2004	2005
41%	42%	44%	47%	49%	51%

  For 2005, the inpatient portion of the CIF prior to cost adjustment is:

  $9,022,247 x 51% = $4,586,699.

  (d) The rule then instructs us to adjust for differences between the median cost per unit of outpatient activity, adjusted for variations in wages and case mix, in Maine ($74.44) and New England ($68.45).

  Multiplying the Maine amount by 0.92 makes this adjustment (i.e., $74.44 x 0.92 = $68.45), so the adjusted outpatient portion of the CIF is $4,586,699 x 0.92 = $4,218,013.

  (e) The final step in the mathematical computation is adding the adjusted inpatient and outpatient portions. This renders a total of $7,027,934.

- Subsection (A)(3). If necessary, the amount calculated using the mathematical formula in the rule shall be adjusted to correlate with the number of months the CIF is to apply to, should that number vary from twelve months. No such adjustment is necessary in this year.

- Subsection (A)(4). The rule requires and adjustment to the amount calculated above to reflect differences between the rate of growth in per capita income in Maine and the rate of growth in per capita health care expenditures.

  Between 2004 and 2005 the estimated rate of growth of per capita health care expenditures (6.73%) exceeded the estimated rate of growth of per capita income (2.74%) by 3.99%. The amount is therefore adjusted downwards by 3.99%, yielding $6,747,820. This is the hospital portion of the CIF.

- Subsection (B)**.** The hospital portion of the Capital Investment Fund is to equal 87.5% of the total Fund value. In order to calculate the total Fund value, then, the value of the hospital portion must be "grossed up" by 87.5%.

  $6,747,820 / 0.875 = $7,711,794

  This is the total value of the CIF. The non-hospital portion of the CIF is the remaining 12.5% of the CIF, or $963,974.

- Subsection (C). Within both the hospital and non-hospital components of the Capital Investment Fund, an allocation must be made for large projects and small projects. Within each component, ten percent (10%) of the total Capital Investment Fund component is set aside for small projects; the remainder is allocated to large projects.

	Small projects	Large Projects	Total
Non-Hospital	$96,397	$867,577	$963,974
Hospital	$674,782	$6,073,038	$6,747,820
Total			$7,711,794

- Section D of the rule instructs the Office to examine the results of these calculations in light of three additional considerations, described below.

(1) Adequacy against, at a minimum, the criteria for the Capital Investment Fund set forth at 2 MRSA chapter 5 section 102(2). The Capital Investment Fund is to be further adjusted if the Office finds it does not adequately reflect the considerations listed below. The criteria include:

(a) The State Health Plan developed in accordance with 2 MRSA chapter 5 section 103;

(b) The opportunity for improved operational efficiencies in the state's health care system;

(c) The average age of the infrastructure of the state's health care system;

(d) Technological developments and the dissemination of technology in health care; and

(e) Unused balance remaining in the Capital Investment Fund from a prior year.

(2) Any input the Office receives from an expert consultants; solicitation of this type of input is at the discretion of the Office; and

(3) Guidance from the Advisory Council on Health Systems Development (ACHSD).

Under the first consideration, the Office notes that while Maine's average age of plant aged slightly from 2002 to 2003, our average plant is still younger than all but two (NH and VT) states in the Northeast, all hospitals nationally and all rural hospitals nationally (Table 1). Additionally, Maine's capital expenditure growth rate (Table 2) and capital costs per discharge (Table 3) continued to be higher than benchmarks, indicating that Maine has a more active program of capital investment than benchmark states.

Table 1. Average Age of Plant (years)[1]

	1999	2000	2001	2002	2003
ME	9.5	9.71	9.77	9.32	9.63
NH	7.55	8.28	8.21	7.89	7.74
VT	8.92	9.62	9.97	9.92	9.22
MA	10.34	9.56	9.56	9.67	10.6
CT	9.49	9.49	10.54	10.27	10.6
NJ	9.63	9.93	10.59	11.14	10.65
NY	10.48	10.16	11.66	11.84	11.42
PA	10.48	10.43	11.32	11.88	11.65
RI	9.12	9.91	10.33	11.47	11.8
NE	9.95	9.82	10.46	10.83	10.65
Rural	9.45	9.71	9.92	10.03	9.96
All	9.22	9.39	9.61	9.76	9.83

Table 2. Capital Expenditure Growth Rates

	1999	2000	2001	2002	2003
ME	8.4%	11.0%	8.0%	6.9%	6.5%
NH	8.6%	5.3%	8.8%	7.3%	7.2%
VT	6.7%	6.0%	6.3%	6.5%	5.7%
MA	6.0%	5.5%	4.7%	6.3%	5.8%
CT	6.3%	4.3%	3.8%	5.2%	4.8%
NJ	6.1%	4.0%	4.8%	5.3%	7.2%
NY	6.2%	4.7%	4.0%	4.4%	5.3%
PA	5.8%	5.5%	4.8%	6.0%	5.4%
RI	6.9%	6.7%	5.8%	9.9%	8.3%
NE	6.4%	5.5%	5.2%	5.5%	5.7%
Rural	6.6%	6.1%	6.0%	5.7%	5.8%
All	7.1%	6.4%	6.2%	6.2%	6.4%

[1] Source for all three tables: *2005 Almanac of Hospital Financial and Operating indicators.* Ingenix, 2004.

Table 3. Capital Costs per Discharge (Adjusted for Wage Index & Case Mix)

	1999	2000	2001	2002	2003
ME	$404.87	$414.14	$506.33	$468.29	$469.90
NH	$449.09	$445.07	$545.62	$431.54	N/A
VT	N/A	N/A	N/A	N/A	N/A
MA	$262.46	$161.32	$150.69	$172.73	$144.06
CT	N/A	N/A	N/A	$369.20	N/A
NJ	$409.18	$423.16	$392.20	$463.75	N/A
NY	$328.97	$358.17	$384.17	$310.13	$356.44
PA	$358.41	$321.77	$344.64	$361.99	$393.02
RI	$259.44	$280.30	$255.88	$274.01	$288.43
NE	$355.09	$281.22	$295.41	$309.46	$279.55
Rural	$386.86	$406.72	$397.20	$409.13	$423.77
All	$423.93	$400.40	$395.29	$412.62	$397.67

We also note that the Maine Quality Forum has indicated that there are no technological developments that would require an adjustment to the Fund.

We considered rolling the unused balance of $1,171,933 remaining in the hospital portion of the prior CIF ($575,940 for small projects and $595,993 for large projects), forward into the new CIF value being proposed here, and decided not to make any adjustment for the unspent balance. Our reason for declining to make such an adjustment is described below:

- The third year operating costs of hospital approvals under the prior CIF totaled $8,384,933, which exceeded the hospital portion of the prior CIF by $2,625,533. It is possible for total approvals to exceed the CIF value – and for there to still be an unused balance – because of the rule's section 5, which instructs that the costs of large projects will be spread over multiple years for purposes of debiting against the CIF. The rule is constructed in this matter so as to preclude a circumstance where a single large project monopolizes an entire year's Capital Investment Fund. By spreading the cost of very large projects over multiple years, the maximum "hit" of any one project in a single year is limited to $2 million.

- The unspent balance is not associated with disapproving any hospital applications under the first CIF, so no adjustment needs to be made.

With regard to the second consideration, the Office elected not to consult with outside experts.

Finally, while individual members of the Advisory Council on Health Systems Development have expressed personal opinions regarding the value of the CIF, the Council as a body, has not taken a position or made a recommendation regarding the valuation of the Fund.

Based on these considerations, the Office has elected to make no further adjustments to the CIF calculation and proposes the amounts below as the final CIF value.

	Small projects	Large Projects	Total
Non-Hospital	$96,397	$867,577	$963,974
Hospital	$674,782	$6,073,038	$6,747,820
Total			$7,711,794

A public hearing will be held Wednesday, November 16, 2005, from 9am to 12 noon in the Conference Room of the Dirigo Health Agency, 211 Water Street, Augusta, for the purpose of taking public comment on the proposed level of the Fund. Commenters are specifically asked to address errors in computation on the Fund amount given the governing rule, as well as advances in technology that should be considered when sizing the Fund.

Persons requiring special assistance in order to participate in the public hearing must notify the Office no later than November 10, 2005, so that appropriate arrangements may be made to accommodate their needs.

Written comments regarding the $7,711,794 Fund level will be accepted through 5:00 PM, November 28, 2005. All comments are to be directed to: Ellen Jane Schneiter, Deputy Director, Governor's Office of Health Policy and Finance, 15 State House Station, Augusta, ME, 04333-0015; Phone (207) 624-7442; Fax (207) 624-7608; TTY (207-287-6548)

Comments may be submitted electronically to Ms. Schneiter's attention at ellen.schneiter@maine.gov.